TRENDS AND DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN INDIA: IMPACT OF THE POLICY IN THE INDIAN MARKET

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INTRODUCTION

FDI stands for Foreign Direct Investment . It is basically an investment by foreign single individuals or foreign companies into business , capital markets and production for a hike in turnover in a particular host country. Different countries have different policies, goals and loans enacted under which Foreign Direct Investments are brought into for mutual growth, heavy profits and annual turnover Investment in India avails the base and pre-requisite for economic growth and development. Excluding a nation's foreign exchange reserves, its exports, importantly the government's revenue, its financial position, which exhibits available supply of domestic savings, magnitude and quality of foreign investment are really vital for the well being of a nation. Developing nations, generally, consider FDI as the most promising and safest type of international capital flows out of all the available sources of external finance available to them. FDI draws a win – win situation to the host and the domestic countries. Both countries are directly interested in inviting FDI because they gain a lot from such kind of investment. There is a considerable change in the attitude of both the developing as well as developed countries towards FDI. Both of them contemplate this FDI as the most suitable form of external finance.. A conclusion can be drawn that the Government should design the FDI policy in such an organized manner that FDI inflows can be well utilized as means of enhancing domestic production, savings and exports through the equitable distribution among many states so that they can attract FDI inflows at their respective levels. FDI can help to elevate the output, production and export at the sectoral level of the Indian economy also . It is advisable to welcome the export oriented sectors and higher growth of economy could be achieved via the growth of these sectors. Ever since the globalization has started, the developing countries, particularly those in Asia, have been witnessing an immense surge of FDI inflows since the past couple of decades. Even though India caught up with FDI a little later as compared to the other East Asian countries, its significant market potential and policy regime has always sustained its attraction as a beneficial destination in the eyes of its foreign investors.

In this world of Globalization where the countries are advantaged by multiple other countries by sharing mutual benefits in terms of technologies , capitals, production materials ,experts and upto an extent labours too by generating employment .FDI has a strong nexus with developmental economics of a country. The Capital inflows of foreign investments paves the way for-

1.strenghtening infrastructure

2.enhancing production

3.generating employment

Moreover FDI acts as a mediator to acquire advanced technology that eases the movement of foreign exchange resources. This availability of foreign exchange reserves in the country allows Reserve Bank of India to intervene in the foreign exchange market.

The policy of FDI is regulated under FEMA (Foreign Exchange Management Act)2000, administered by the RBI.

Review of Literature

HISTORY OF FDI IN INDIA

The initial entry of FDI in India can be loosely considered from the time of establishment of East India Company of Britain during the colonial era in the 17th century when the British merchants approached the Mughal Emperor for establishing factory in Surat city of India. Along with them the British brought on the Industrial revolution to India which led to development of transportation (Railways and Roadways) and communication systems albeit for their benefits. The new innovations and inventions happening around the European countries got introduced to the Indian subcontinent too. After the Second World War, many Japanese companies entered the Indian market and enhanced their trade with India. After our Independence the policy makers of new India realized the need of foreign investment for development and 3 designed the FDI policies aiming it as a medium for bringing in advanced technologies and gaining valuable foreign exchange resources. With time and as per economic and political regimes there are changes within the FDI policy too.

The industrial policy of 1965, allowed MNCs to venture through technical collaboration in Republic of India. Therefore, the govt adopted a liberal angle by permitting a lot of frequent equity. With time, economic things within the country and therefore the outlook of state in power, the attitudes of the policy manufacturers unbroken dynamic towards

foreign corporations finance in Asian country. FDI was introduced within the year 1991 below interchange Management Act (FEMA), by then minister of finance Dr. Manmohan Singh. It started with a baseline of $1 billion in 1990. Asian country is taken into account as second necessary destination for foreign investment. the foremost sectors that

attracted FDI are services, telecommunication, construction activities and laptop software system and hardware. Asian country in 1997 allowed foreign direct investment (FDI) in money and carry wholesale. Then, it needed government approval. The approval demand was relaxed, and automatic permission was granted in 2006. From 2000 to 2010, Indian retail has attracted concerning $1.8 billion in foreign direct investment, representing a really tiny one.5% of total investment flow into Asian country.

FOREIGN DIRECT INVESTMENT IN INDIA

Foreign Investment in India or more precisely Foreign Direct Investment (FDI) in India is one of the burning issues in the entire world economy presently . Foreign Direct Investment (FDI) has to be defined as " an investment that is generally made to acquire enduring interest in enterprises that operates outside the periphery of the economy of the one who invests." The FDI relationship consists of a parent enterprise and a foreign affiliate which gets tied up to form a Trans-National Corporation (TNC). The reason by which globalization introduced Foreign Direct Investment serves the purpose to benefit a country in its own way keeping in the mind the GDP of a country which actually determines the economy of a nation and a strong tie up with FDI policy has the following demanding benefits .

· The Foreign exchange controls have been eased on the account of trade.

· Companies can raise funds from overseas securities markets and currently have considerable freedom to invest abroad for expanding global operations.

· Foreign investors can certainly remit earnings from Indian operations.

· Foreign trade is largely free from regulations, and tariff levels have come down sharply in the last couple of years.

· While large number of Foreign Investments in India (up to 51 %) are allowed in most industries, foreign equity up to 100 % is well encouraged in export-oriented units, which depends on the merit of the proposal. In certain specified industries reserved for the small scale sector, foreign equity up to 24 % has been permitted now. As the industry progresses, opportunities are waiting in India, which has the world's largest middle class population of over 300 million, is attracting foreign investors on return assuring them very good returns. The scope for foreign investment in India is beyond the horizon. India offers to foreign investors a stable package of fiscal incentives for exports and industrial investments that definitely includes: [1]

· Complete tax exemptions.

· Investment incentives are offered by both the Central Government as well as the Government of the State in which the unit is located.

· India has tax treaties with approximately 40 countries. Moreover, the backing up of the common man regarding FDI is clearly from the sharp growth in India's gross expenditure in the recent past few years. Therefore the Indian economy is proving itself highly conducive to Foreign Investment. One of the most striking developments during the last two decades is the visible growth of FDI in the global economic landscape. The unprecedented sharp hike in global FDI around the world is a driving force behind FDI to be a policy as an important and vital component of development strategy in both developed and developing nations and policies are designed in order to push inward flows. Both kind of countries are directly keen on inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the benefit of the vast markets optioned by industrial growth. On the other hand the 'host' countries want to acquire dexterousness in technological and managerial expertise and supplement domestic savings and foreign exchange. This paucity of all kind of essential resources for instance financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets abroad in their economic development, developing

[1] Available at https://www.investindia.gov.in/team-india-blogs/advantages-foreign-direct-investment, last visited on 4th April 2020 at 5:30pm

nations accepted FDI as a sole visible panacea for all the scarcities. Additionally, the integration of global financial markets paves the way to this explosive growth of FDI around the globe.

OBJECTIVES AND FUTURE PLANS RELATING TO GOAL ORIENTED ACTIONS FOR FDI

1)Stabilizes Balance of Payment

FDI plays a crucial role in foreign exchange inflow in the country. This policy highly supports the government in paying International debts as the governments need to borrow from the external sources and pays the debt with a lump sum interest within a stipulated time. This further facilitates the government to generate employment by producing adequate resources so that BOP maintains an equilibrium.

2**) FDI emboldens development in variety of arenas.**

For the development of an economy, it is important to have new technology, proper management and new skills. FDI allows bridging of the technology gap between foreign and domestic firms to boost the scale of production which is beneficial for the betterment of Indian economy. Thus, FDI is also considered an asset to the economy.

3)**FDI generates Employment**

FDI policy encourages the "Ease of Doing Business" and supports International companies , investment companies , firms to merge with the host country's economy ;it catalyses the process of generating employment . It strengthens youth employment to develop skills and employ it for better productivity and business expansion.

4)Opens the gate for Import and Export

FDI opens the channels for a broad International marketing network and information related to it that endorses domestic products all over the world. This import and export dealings further facilitates the idea of globalization that creates competitive environment which leads to hike in efficiency and superior products and services.

FDI :-Facts and Statistics Finding the broad lacunas

India spread out its economy to foreign direct investment (FDI) with 1991 relaxation regime and has sharply pursued it since then. It any liberalised and simplified the FDI policy "to offer easy doing business within the country, resulting in larger FDI inflows and thereby conducive to the expansion of investment, financial gain and employment". The annual growth in gross FDI and FDI equity inflows has fallen into single digits since 2016-17 with the latter registering a negative growth in 2018-19. The gross FDI as a share of GFCF has fallen from a high of thirty two.9% in 2008-09 to eight.1% in 2018-19. Similarly, the FDI equity weakened from twenty four.6% to 5.6% throughout anequivalent amount.

Repatriation and reinvested earnings: A negative trend
Another key trend is seen within the return and reinvested earnings (earnings that are tilled back to the Indian economy). each show negative trends, indicating additional capital is flowing out, diluting the FDI's potential profit to the Indian economy.Repatriation of earnings, that wont to be terribly low till 2008-09, rose to 17.9% of the FDI equity inflows in 2009-10 and reached 48% in 2017-18. This shows that additional and more capital is being taken out of the economy. Simultaneously, the reinvested earnings (earnings that are reinvested), that were high within the starting - quite 60% of FDI equity inflows in 2002-03 and 2003-04 - went all the way down to 28% in 2017-18. this means additional profits are being taken out, that might have benefited the Indian economy within the end of the day. thus here it's on Industrial Policy-2017 had noticed that "benefits of holding investments and accessing technology haven't been controlled to the extent possible".[2]

Issues

1) Are the plannings of the FDI policy targeting its real objective?
2) How there has been a deep slowdown in the graph exhibiting Gross FDI and FDI equity?
3) Is it the maladministration of the former and present governments responsible for such downfall?
4) Is there any benefit so far?

[2] Available at https://economictimes.indiatimes.com/news/economy/policy/india-hopes-to-continue-fdi-growth-story-in-2020/articleshow/73041537.cms?from=mdr, last visited on 7th April 2020, at 6:43pm

The governments have had no answers or interest in providing such information. The emphasis has always been on the quantity of capital inflow.

In the 2013-14 budget speech, for example, the government was more honest to admit that FDI was imperative more because of the need to finance the current account deficit (CAD). Since then it has been claimed that the FDI is boosting manufacturing and employment but on multiple occasions the government has told the Lok Sabha that it has "no data" to substantiate any such claims.

SUMMARY FINDING

Enthused by a record foreign investment inflow, India is optimistic of continuing to be one of the world's favourite FDI destinations in 2020 on the back of the Modi government's liberalised norms and a significant jump in the ease of doing business ranking.. There is found a lot healthy growth in the investments of India in the overseas . This is very much visible evident from the fact that Singapore topples Mauritius as India's top FDI source.In 2018-19 , inflows from Singapore were estimated $6.2 billion, compared with $8.1 billion from Mauritius . Singapore topped with Investment advisers attributing the change to the revamped tax treaty . The selection of sources of Investment depends on bilateral tax agreement . Singapore offers other advantages on the ease of doing business. Also, presence of a large number of private equity investors in Singapore helped boost inflows.The shine in the sector of automobile and chemicals were visible enough however maximum turnover was from the sectors like finance , outsourcing and Research and Development was found[3].

SUGGESTIONS

According to my Analysis of the study on impact of FDI in an Indian economy, I

suggest some points through this the flow of FDI enlarged, as, it's found that FDI as a strategic element of investment is required by Asian country for the jobs, growth of existing producing industries and development of the new one.

[3] Available at https://timesofindia.indiatimes.com/business/india-business/fdi-inflows-to-india-from-singapore-twice-of-mauritius/articleshow/69550757.cms, last visited on 6th April 2020 ,at 5:08pm.

Indeed, it's conjointly required within the care, education, R&D, infrastructure, retailing

• The study urges the policy manufacturers to focus additional on attracting various styles.

• The policy manufacturers ought to style policies wherever foreign investment will be utilised as suggests that of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion.

• It's recommended that the government ought to push for the speedy improvement of infrastructure sector's necessities that are necessary for diversification.

• Government ought to make sure the even handed distribution of FDI inflows among states. The central government should offer additional freedom to states, in order that additional incentives to foreign investors to speculate in states.

• Government ought to open doors to foreign firms within the export – orientating services that may increase the demand of unskilled staff and low competent services and conjointly will increase the wage level in these services.

• Government should target at attracting specific styles of FDI that are ready to investing in human capital, R&D activities, environmental problems, dynamic products, productive capability, infrastructure and sectors with high financial gain.

• the govt should promote policies which permit development method.

• It's recommended that the govt endeavour ought to air the sort and volume of FDI that may considerably boost domestic fight, enhance their skills, technological learning and invariably.

CONCLUSION

This discussed paper basically revolved around the implementation of the Foreign Direct Investment , its need , how it navigated through cross borders and strengthened the concept of Globalization. This policy was introduced with certain objectives which will pave the way for maximum business profits to the country India, which may become Investment friendly host country to allow and give chances to the interested MNCs or any organization for that matter which may even incorporate the Mergers and Acquisition Laws that simply encourages the ease of doing business while believing in mutual profit for all. Several laws were passed that supported FEMA under RBI Act and the company exhibited huge growth in some years . However the graph fluctuated with different governments belonging to different political parties and now is the present government leading the country in the right path to earn maximum benefits or simply overlooking the policy? as neither the Supreme court or any particular parties themselves have any basic and deep rooted understanding of developmental economics that gives birth to policies like FDI. The main focus of bringing the graphical representation of the statistics under the knowledge of the Economic Advisory Committee as well as the experts in Economics to save the country and help from drowning in the future and Central governments strict plans and actions is the need of the hour.

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